Market Brief

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The views and opinions contained in this market brief are those of Capital Allocation & Management, Inc. and have been researched and analyzed by Robert Kennedy, CIO, Capital Allocation & Management.

	21-Oct-05	14-Oct-05	% Change	% Change	% Change
Nasdaq Composite	2,082.21	2,064.83	0.84%	-4.29%	8.72%
S&P 500 Index	1,179.59	1,186.57	-0.59%	-2.67%	7.65%
Dow Jones Industrial Average	10,215.22	10,287.34	-0.70%	-5.27%	4.69%
MSCI EAFE (Intl.)	1,536.94	1,573.40	-2.32%	1.42%	14.20%
Wilshire 5000	11,792.57	11,835.61	-0.36%	-1.49%	9.72%
10 Year U. S. Treasury Yield	4.39%	4.48%	-2.01%	NA	NA
30 year U.S. Treasury Yield	4.60%	4.70%	-2.13%	NA	NA

The markets' October roller coaster ride continued last week, with large swings in all of the indices. This despite the continued oil weakness and earnings reports that have, basically, met/exceeded investor expectations. In fact, so far 69% of the 160 companies of the S&P 500 that have reported have exceeded estimates. Regardless, we mentioned a couple of weeks ago that it appeared the equity markets were turning away from this year's market leaders which were basically comprised of energy and utility stocks. Since then, we have seen the energy sector decline approximately 15% and utilities fall 10%. Those declines, however, were not offset by significant bounces in other sectors. This highlights the fact that were it not for the leadership sectors, the major indices would be experiencing double digit declines this year. The question for investors is whether or not the recent decline in the markets' leadership represents a simple correction (i.e., a buying opportunity) or if an actual change in market leadership is occurring. We hope it is the latter, as a renewed rise in the energy sector would not bode well for a broad-based year end rally.

Ben Bernanke was officially nominated as the next Chairman of the Federal Reserve. Current Fed Head Alan Greenspan's term ends in late January. It should be noted that Mr. Bernanke will have to go through an approval process prior to actually getting the position. So far, the equity markets seem at ease with this announcement, with all of the major indices experiencing strong gains (so far). The bond markets seem less sanguine, as they experienced a fairly significant sell-off. It appears obvious that the Fed will continue to raise interest rates after each of this year's final three meetings, which could set the stage for Mr. Bernanke to pause the interest rate tightening cycle when/if he assumes leadership. One thing is relatively certain, however, and that is debates during Fed meetings will be much less one-sided as compared to Mr. Greenspan's tenure during which he essentially told members how to vote. Mr. Bernanke will have to earn that respect.

The 10-Year Treasury yield, which briefly fell back below the psychologically 4.42% level on Friday, has popped back above it this morning. Investors remain concerned about inflationary pressures and continued Fed rate hikes. Interestingly, however, the Fed Funds Futures are now predicting that the Fed will stop at 4.5% later this year, rather than the widely expected rate of 4.75% at year end. The corporate bond markets continue to suggest equity prices should move higher, this despite the recent turmoil caused by Refco and Delphi. To be sure, spreads are widening but not at a pace that suggests this market has peaked.

Economic Reports: On Thursday, September Durable Goods Orders should post a 1.5% decline, following August's 3.3% rise. On Friday, third quarter GDP should show a 3.6% gain, after the second quarter's 3.3% rise. The implicit price deflator should show a gain of 2.9%, after the second quarter's gain of 2.6%.

"All Indices are unmanaged and are not available for direct investment by the public. Past performance is not indicative of future results. The NASDAQ Composite Index measures the performance of all issues listed in the NASDAQ Stock Market, except for rights, warrants, units, and convertible debentures. The S & P 500 is based on the average performance of the 500 industrial stocks monitored by Standard & Poor's. The Dow Jones is computed by summing the prices of the stocks of 30 large companies. The Morgan Stanley Capital International (MSCI) Europe, Australia and Far East (EAFE) Index is a broad-based index composed of non U.S. stocks traded on the major exchanges around the globe. The Wilshire 5000 Total Market Index represents the broadest index for the U.S. equity market, measuring the performance of all U.S. headquartered equity securities with readily available price data."

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